

**REPORT
HIGHLIGHTS**
FINANCIAL STATEMENT AUDIT

Subject

Maricopa County issues a Comprehensive Annual Financial Report. The County is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether the County has met its responsibilities.

Our Conclusion

A modification of opinion was expressed on the County's financial statements because we were unable to express opinions on the business-type activities and three major healthcare funds. However, the governmental activities, the discretely presented component unit, and the Fiduciary Funds were fairly presented.



2004

Year Ended June 30, 2004

Lack of Effective Controls over County Healthcare Programs Resulted in Audit Opinion Disclaimers and a CAFR Issuance Delay

Maricopa County, through the Maricopa Managed Care Systems (MMCS), administered the following programs:

- Arizona Health Care Cost Containment System (AHCCCS)—Acute Health Care program reported in the Maricopa Health Plan Fund.
- AHCCCS—Arizona Long-Term Care System (ALTCS) program reported in the ALTCS Fund.
- Senior Select, a federal medicare/medicaid program, reported in the Non-AHCCCS Health Plans Fund.
- Health Select, a county healthcare program, reported in the Non-AHCCCS Health Plans Fund.

During fiscal year 2004, MMCS did not establish effective internal controls over these programs to ensure proper claims adjudication and accountability for outstanding claims payable. Auditors noted:

- The claims processing system did not always identify duplicate claims, use proper pay rates, and adjust payments for enrollees' share of costs. Also, MMCS did not adequately test and document changes made to the system prior to processing medical claims. These deficiencies resulted in claims paid for incorrect amounts, to ineligible enrollees, for uncovered medical services, more than once for the same services, or overpaid by the enrollees' shares of cost.
- The programs prepaid providers before the related claims were adjudicated. The prepayments were not reconciled to the adjudicated claims for proper accountability. Auditors noted

approximately \$20 million in unresolved prepayments. As a result, we were unable to determine whether prepaid expenses and medical expenses were properly stated.

- The records used to track medical claims payment history were not updated for negotiated and settled claims, and for claims paid for incorrect amounts. In addition, paid dates for claims applied to prepayments were not accurately reported. As a result, the MMCS was unable to determine an accurate balance for medical claims payable at June 30, 2004.

Because of these deficiencies, MMCS' records were not reliable, and auditors were unable to determine whether medical expenses, prepaid expenses, and medical claims payable were accurate. These deficiencies resulted in disclaimers of opinion for the Maricopa Health Plan Fund, the ALTCS Fund, and the Non-AHCCCS Health Plans Fund, which represent three of Maricopa County's major funds in the County's 2004 CAFR. A disclaimer of opinion was also expressed on the County's business-type activities as these funds were significant to that opinion unit. A disclaimer of opinion states that the auditors do not express an opinion as to whether the financial statements of these three major funds and business-type activities are fairly presented in conformity with generally accepted accounting principles.

The deficiencies noted above caused a significant delay in the completion of each fund's financial statements for the year-ended June 30, 2004, and resulted in a 15-month delay in the issuance of the County's 2004 CAFR.

Summary of the County's Government-wide Financial Data

The County's government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to private-sector businesses. These statements report the financial activities of the overall government, except for fiduciary activities.

The tables below present a summarized version of the County's government-wide Statement of Net Assets and Statement of Activities reported in the

current year Comprehensive Annual Financial Report for the primary government.

The Statement of Net Assets presents information on all county assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities presents information showing how net assets changed during the most recent fiscal year.

	Total Governmental and Business-Type Activities
Current and other assets	\$1,098,746,484
Capital assets	<u>1,997,063,364</u>
Total assets	<u>3,095,809,848</u>
Current and other liabilities	276,997,065
Long-term liabilities	<u>297,039,104</u>
Total liabilities	<u>574,036,169</u>
Net assets	
Invested in capital assets, net of related debt	1,883,725,427
Restricted net assets	220,783,631
Unrestricted net assets	<u>417,264,621</u>
Total net assets	<u>\$2,521,773,679</u>

	Total Governmental and Business-Type Activities
Program revenues:	
Governmental activities	\$ 459,300,708
Business-type activities	819,778,442
General revenues and transfers:	
Governmental activities	977,716,456
Business-type activities	<u>59,074,996</u>
Total revenues	<u>2,315,870,602</u>
Expenses:	
Governmental activities	1,199,118,770
Business-type activities	<u>896,577,454</u>
Total expenses	<u>2,095,696,224</u>
Change in net assets	220,174,378
Net assets—beginning, as restated	<u>2,301,599,301</u>
Net assets—ending	<u>\$2,521,773,679</u>

The County Discontinued Operating Three Healthcare Programs

Maricopa County terminated its contracts for the following healthcare programs subsequent to fiscal year 2004:

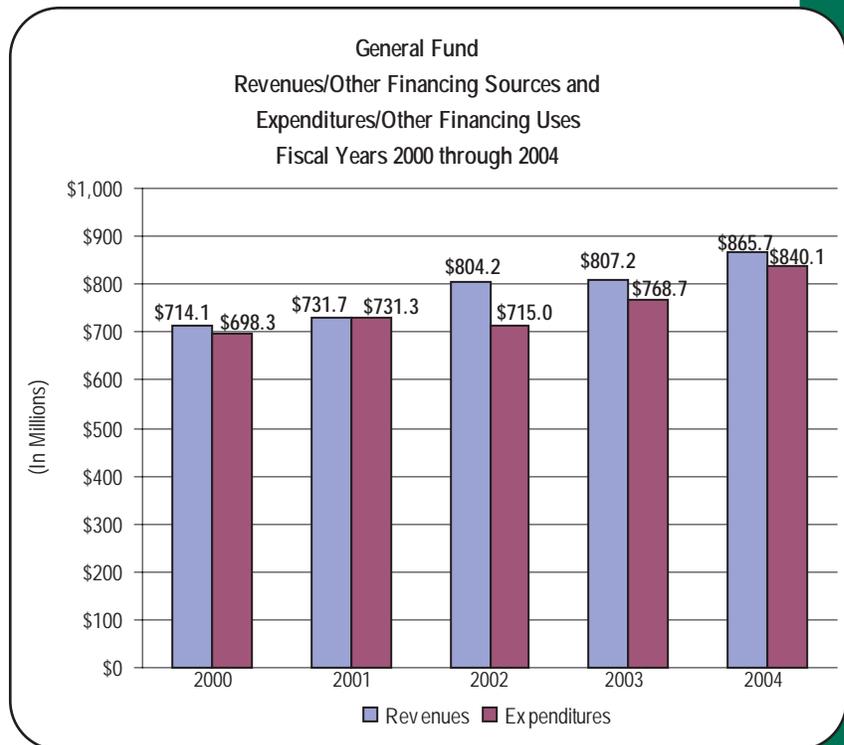
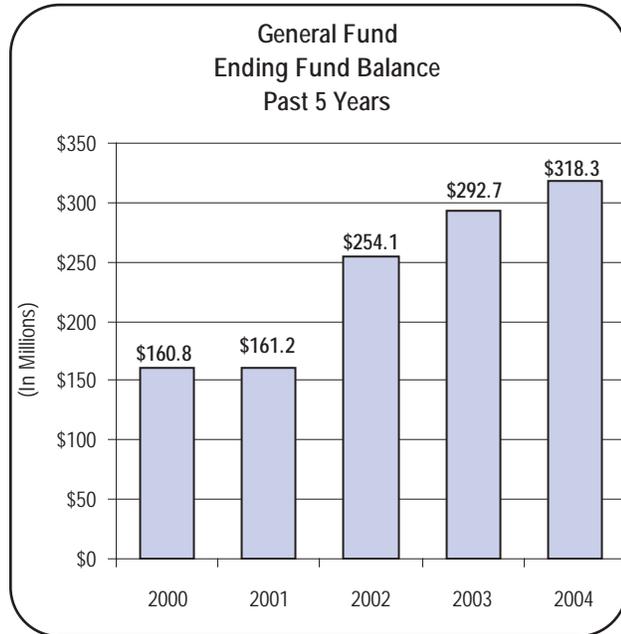
- Senior Select, a medicare/medicaid program contracted with the federal Center for Medicare and Medicaid Services, was terminated as of December 31, 2004.
- The Acute Health Care program and the Arizona Long-Term Care System program contracted with the Arizona Health Care Cost Containment System were terminated as of September 30, 2005.

All three programs were administered by the Maricopa Managed Care Systems (MMCS), and the County will be responsible for claims pertaining to services performed prior to each program's termination date. MMCS was having significant operating problems regarding claims processing in recent years as described on the prior page. In addition, these programs had significant operating losses during fiscal year 2004.

The General Fund's Fund Balance Continues to Increase

The General Fund's fund balance, as reported on the County's fiscal year 2004 Comprehensive Annual Financial Report, was \$318.3 million at June 30, 2004, an increase of 9 percent from fiscal year 2003 and 98 percent from fiscal year 2000. This increase is shown in the figure to the right.

Property taxes and intergovernmental revenues, consisting of state-shared sales taxes and vehicle license taxes, representing more than 90 percent of General Fund revenues from fiscal years 2000 through 2004, have contributed to the increasing fund balance. Property tax revenues, as reported for fiscal year 2004, increased 47 percent from fiscal year 2000, and intergovernmental revenues, as reported for fiscal year 2004, increased 20 percent from fiscal year 2000. Fund balance increased \$157.5 million from 2000 to 2004. This resulted from revenues and other financing sources exceeding expenditures and other financing uses in each of the 5 fiscal years, as illustrated in the figure to the right.



Housing Authority Becomes a Legally Separate Entity

The Housing Authority provides efficient and affordable rental housing to low-income households of Maricopa County. Prior to fiscal year 2004, the Housing Authority was a department of Maricopa County. Beginning July 1, 2003, the Housing Authority became a legally separate entity pursuant to Arizona Revised Statutes §36-1404. The Housing Authority is reported as a discretely presented component unit, as the Maricopa County Board of Supervisors may dissolve the Authority at any time at

the sole discretion of the County, therefore, a financial benefit or burden exists. A public accounting firm audited the Authority. Our opinion is based on the work of those other auditors.

The tables below present a summarized version of the Housing Authority's Statement of Net Assets and Statement of Activities reported in the current year Comprehensive Annual Financial Report in the government-wide financial statements.

**Statement of Net Assets
June 30, 2004**

	<u>Housing Authority</u>
Current and other assets	\$ 5,898,259
Capital assets	<u>25,129,430</u>
Total assets	<u>31,027,689</u>
Current and other liabilities	565,073
Long-term liabilities	<u>280,637</u>
Total liabilities	<u>845,710</u>
Net assets	
Invested in capital assets, net of related debt	25,129,430
Unrestricted net assets	<u>5,052,549</u>
Total net assets	<u>\$30,181,979</u>

**Statement of Activities
Year Ended June 30, 2004**

	<u>Housing Authority</u>
Program revenues	<u>\$15,918,490</u>
Expenses	<u>16,532,616</u>
Change in net assets	(614,126)
Net assets—beginning, as restated	<u>30,796,105</u>
Net assets—ending	<u>\$30,181,979</u>

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Contact person for
this report:
Dennis Levine

The County Substantially Completes Two Jail Facilities

The County substantially completed the 4th Avenue Jail and the Lower Buckeye Jail during fiscal year 2004. These facilities were funded by the 1/5 of one-cent sales tax approved by voters for the construction and operation of adult and juvenile detention facilities. The 4th Avenue Jail cost approximately \$137

million and contains 1,360 cells. The Lower Buckeye Jail cost approximately \$216.6 million and contains 1,867 cells. These facilities were opened in fiscal year 2005. The total cost of \$353.6 million for these two facilities represents 74 percent of the \$475 million spent on detention facilities since fiscal year 1999 when the sales tax collection began.